



Medical Device Industry Salary Report – National Trends and a Regional Case Study

MassMEDIC

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Today's Agenda

- > Who we are
- > Macroeconomic conditions
- > State of the workforce
- > 2010 Salary planning
- > Pay evolution
 - Cash compensation
 - Equity compensation
- > Case study

An Overview on Radford

The Leader in Market Intelligence

Market Surveys	Compensation Consulting	Analytic Services	Valuation Services
2009 <ul style="list-style-type: none"> > International > Global Life Sciences > US Benchmark > US Executive > US Sales > US Benefits 	<ul style="list-style-type: none"> > Executive Compensation > Employee Compensation > Equity Compensation > Global Compensation > Board Compensation > Incentive Compensation > Sales Compensation > Performance Management > Organization Support 	Services <ul style="list-style-type: none"> > Complete Survey Submission Outsourcing > Survey Job Matching/Levelling > HRIS Data Gathering > Custom Benchmarking > Basic Salary Structure Design > Bonus Program Assessment > Equity Grant Guidelines > Survey Database Mining Analytics <ul style="list-style-type: none"> > “You vs. Market” > Board of Directors Comp > Equity Trends 	<ul style="list-style-type: none"> > FAS 123(R) Calculation and Accounting > Traditional Stock Option Awards > Performance Awards with Market Conditions > Modifications of Equity Awards > Accounting and Reconciliation of Forfeiture Estimates > ESPP Valuations and Accounting > India Fringe Benefit Tax > Sabbatical Valuations under ETF 06-02/FAS43 > Golden Parachute Estimates Under IRC 280G > Relative TSR Calculation
2010 <ul style="list-style-type: none"> > Global Technology > Global Life Sciences > Global Sales > US Benefits 			

An Overview on Radford (cont'd)

- > Radford has the pulse of the Medical Devices marketplace; below is a sample survey participant list:

ABBOTT LABS	<i>COVIDIEN*</i>	<i>INVERNESS MEDICAL*</i>
ABBOTT MEDICAL OPTICS	DIONEX	MEDTRONIC
AGILENT TECHNOLOGIES	DJO	OLYMPUS AMERICA
BECKMAN COULTER	EDWARDS LIFESCIENCES	<i>PERKIN ELMER*</i>
BECTON DICKINSON	EV3	<i>PHILIPS HEALTHCARE*</i>
BIO-RAD LABORATORIES	FLEXTRONICS INTL	ROCHE MOLECULAR SYS
<i>BOSTON SCIENTIFIC*</i>	FRESENIUS MEDICAL	ST JUDE MEDICAL - AFD
CARDINAL HEALTH	<i>HAEMONETICS*</i>	SYNTHES USA
CARESTREAM HEALTH	<i>HOLOGIC*</i>	<i>THERMO FISHER SCIENTIFIC*</i>
CIBA VISION	INTUITIVE SURGICAL	VARIAN MEDICAL SYSTEMS

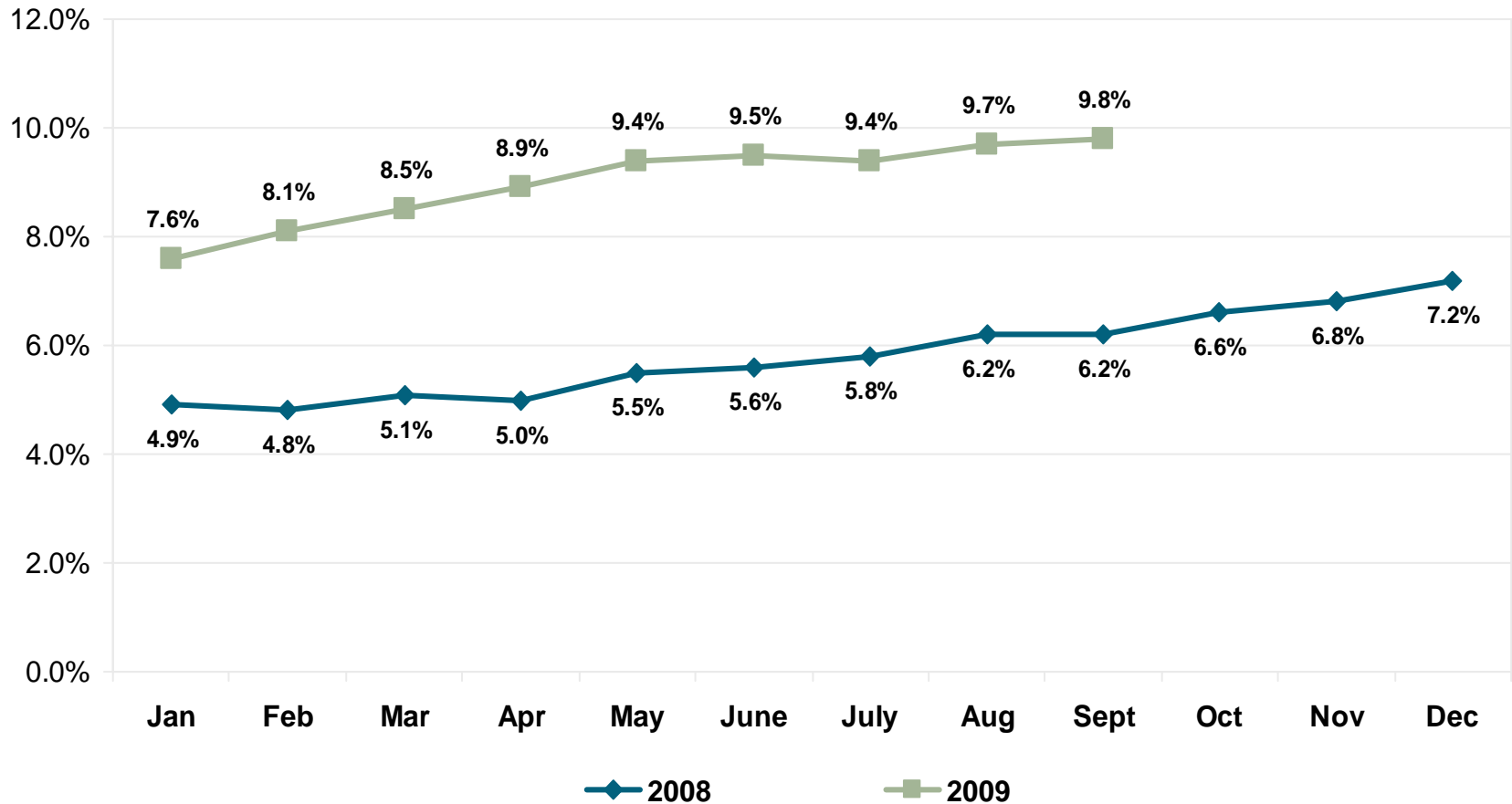
* Companies in blue italics are located in MA



Macroeconomic Conditions

Unemployment

> Unemployment has steadily risen since January 2008

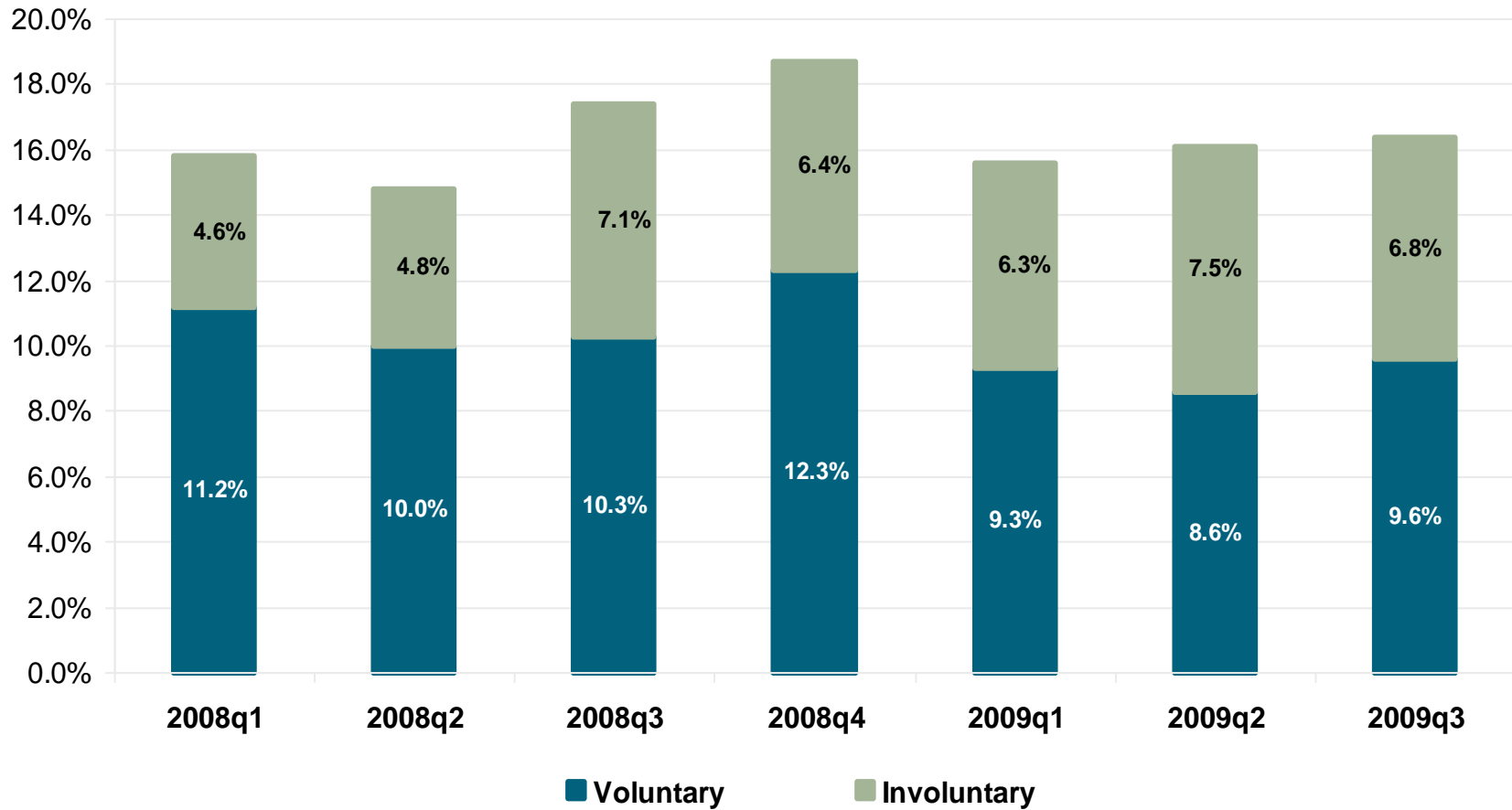




State of the Workforce

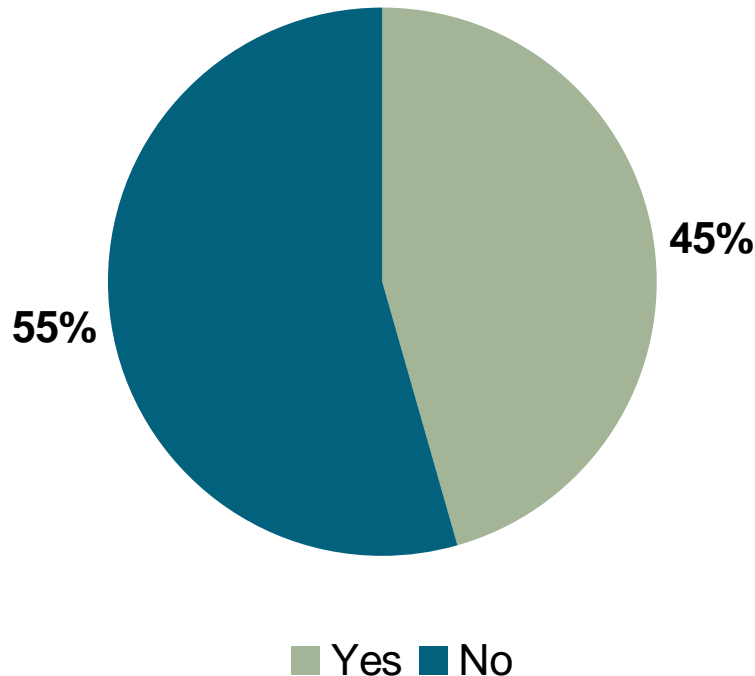
Impact on Employee Turnover

> Voluntary turnover has been shrinking in this market



2009 Workforce Reductions

- > Medical Device companies implementing a layoff in the past year



- > Layoffs as a percent of workforce impacted

Layoffs	Avg	75 th	50 th	25 th
2009 US	7.0%	12.0%	5.0%	2.0%
2009 WW	5.6%	8.5%	5.0%	2.5%



Salary Planning

Controlling Cash

1) Salary

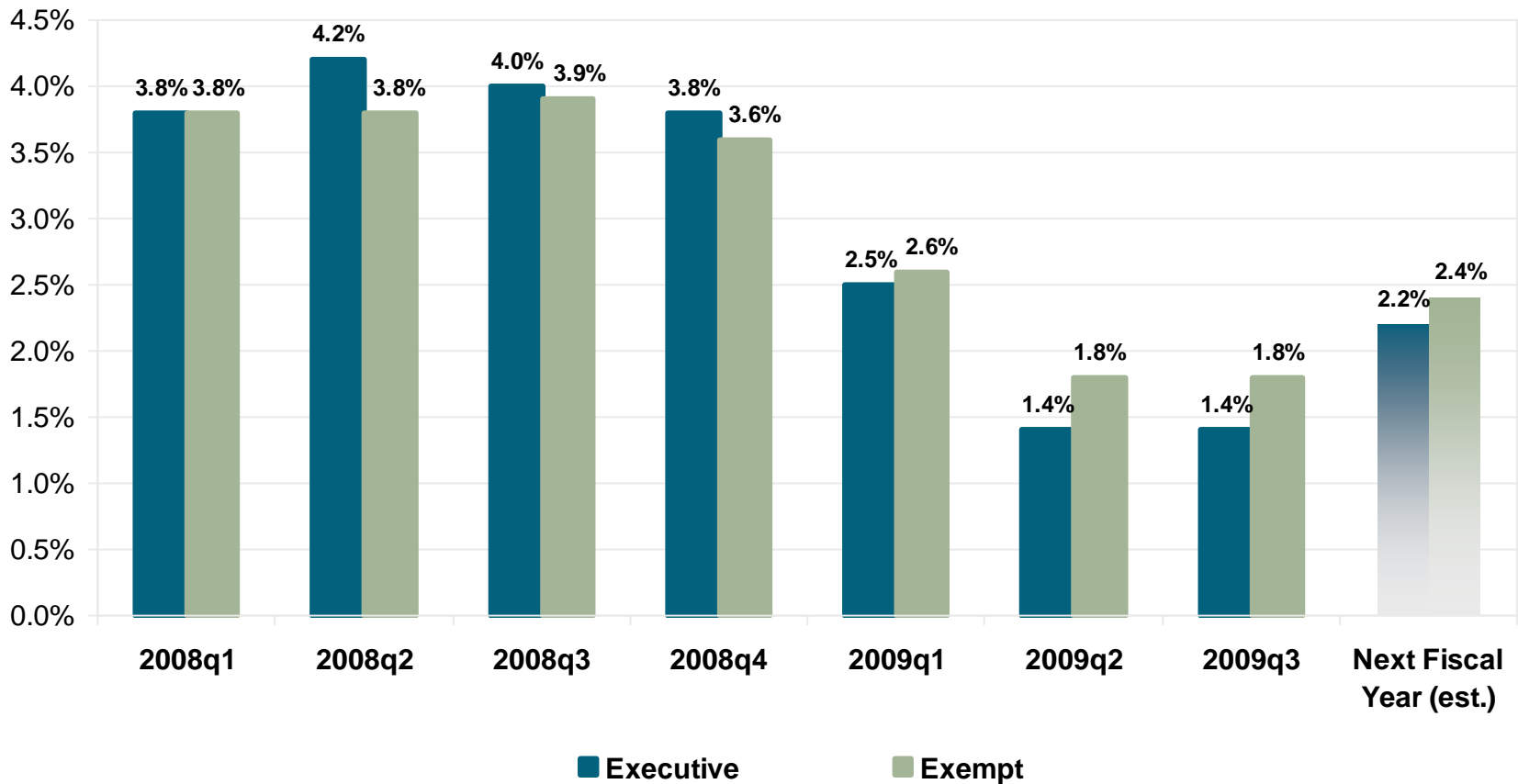
- > Most companies provided increases, but some excluded executives and others only funded a nominal adjustment pool

2) Cash incentives

- > Very few companies report structural changes to their program
- > More than half of companies expect payouts to be comparable to prior years
- > Some are considering paying bonuses using a combination of cash and stock
- > 14% of companies report suspending their bonus plans for next year

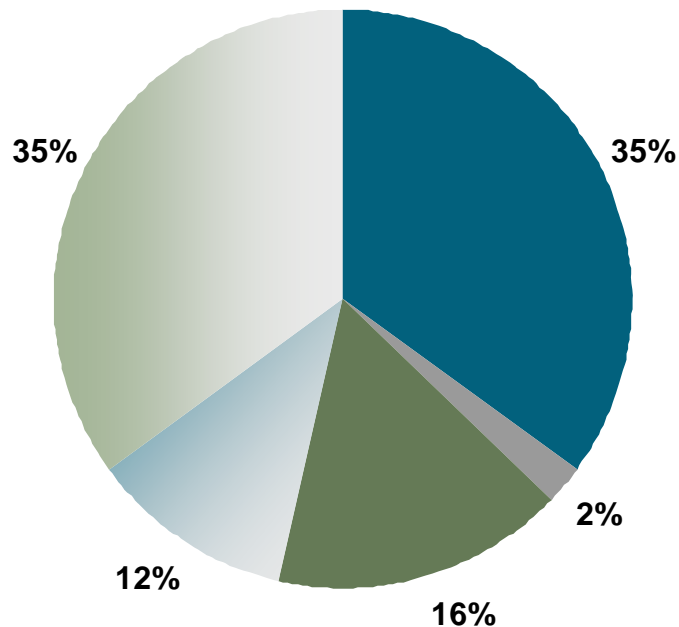
Merit Budget Trends

> Current Fiscal Year – Average Actual Merit (Diluted)



Current Fiscal Year Salary Increase Activity

> 47% of companies implemented a salary freeze



> 6% of companies will freeze salaries next year

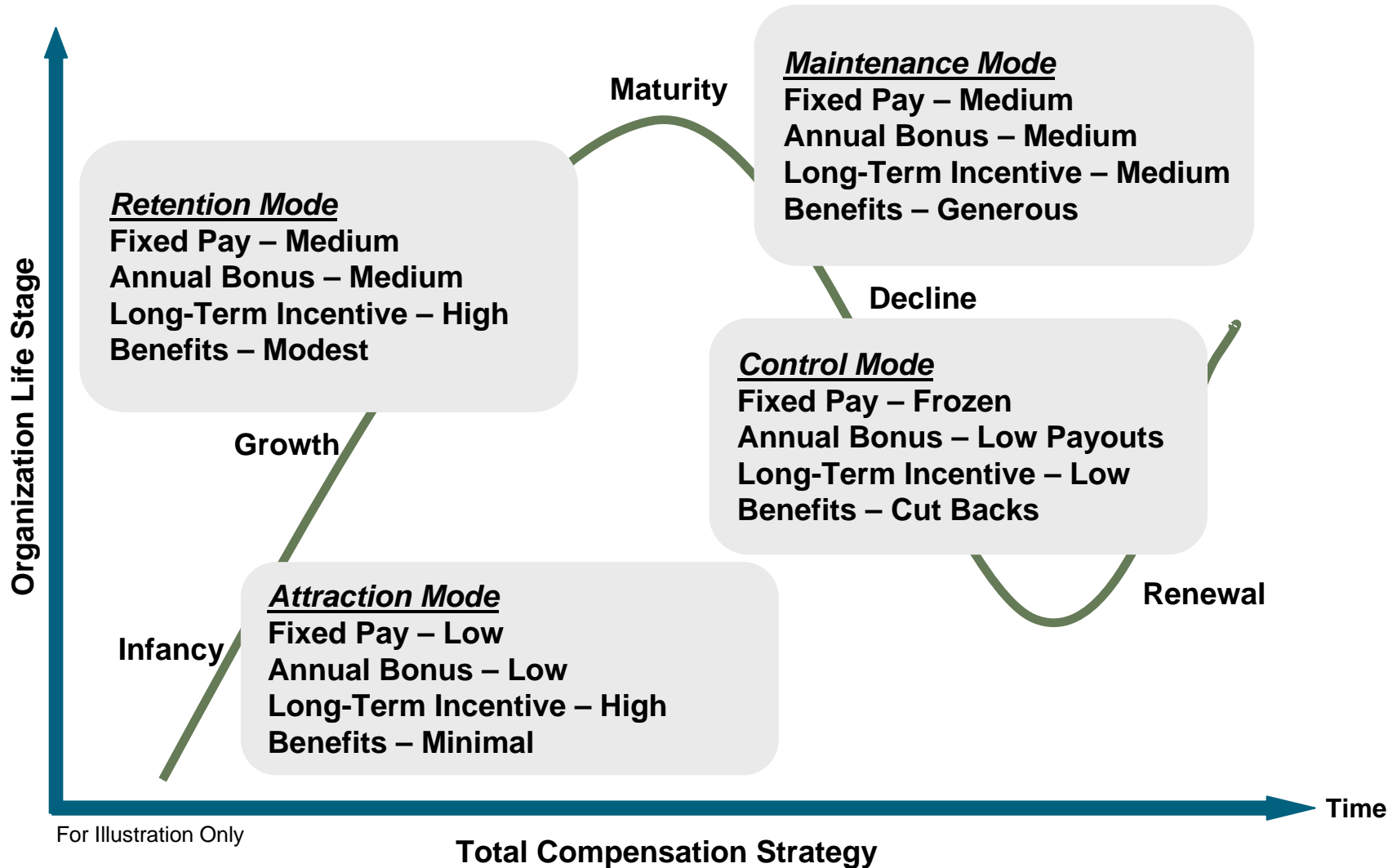
> 13% will reduce their merit budget from the current year levels

- Delivered (or will deliver) the budgeted amount
- Delivered (or will deliver) more than the budgeted amount
- Delivered (or will deliver) less than the budgeted amount
- Merit increases frozen; selective promotion/adjustment exceptions allowed
- A salary freeze is in place; no salaries will be increased



Pay Evolution

Company Life Cycle and Compensation Practices



Compensation Evolution – Cash

Life Cycle	Base Salary	Discretionary Bonus	Formal Bonus	Profit Sharing/ Recognition Plans
Start-Up	●			
Growth	●	→		
Larger/Mature	●	→	→	→

- > Milestone-driven to financials-driven
- > Scale of the business/performance management
- > Ability to measure/ability to pay

Base Salary Change

Job Family	2009 Market 50 th Base Salary	2008 Market 50 th Base Salary	Year-Over-Year Pay Change
Technical Professional			
Staff	\$126,000	\$123,000	2.4%
Senior	\$106,000	\$104,000	1.9%
Career	\$88,000	\$86,000	2.3%
Intermediate	\$72,000	\$70,000	2.8%
Entry	\$59,000	\$57,000	3.5%
Non-Tech Professional			
Staff	\$119,000	\$117,000	1.7%
Senior	\$94,000	\$93,000	1.1%
Career	\$75,000	\$74,000	1.4%
Intermediate	\$59,000	\$59,000	No change
Entry	\$48,000	\$48,000	No change

Bonus Target Change

Job Family	2009 Market 50 th Target Bonus	2008 Market 50 th Target Bonus	Year-Over-Year Pay Change
Technical Professional			
Staff	15.0%	15.0%	No change
Senior	10.0%	10.5%	No material change
Career	10.0%	10.0%	No change
Intermediate	8.0%	8.0%	No change
Entry	6.0%	6.0%	No change
Non-Tech Professional			
Staff	15.0%	15.0%	No change
Senior	10.0%	10.5%	No material change
Career	10.0%	10.0%	No change
Intermediate	8.0%	7.5%	No change
Entry	6.0%	6.0%	No change

Compensation Evolution – Equity

Life Cycle	Options	Vehicle Mix	Full-Value Shares/Cash-Based LTI	Performance-Based Vehicles
Start-Up	●			
Growth	● →			
Larger/Mature		● →		

- > Leverage of shares vs. underlying share value
- > Expected growth rate/time horizon
- > Shareholder alignment vs. executive retention
- > Investor dilution pressures/tax implications

Equity Participation Rates

Job Family	Equity Eligibility	Equity Receipt
Technical Professional		
Staff	80%	65%
Senior	75%	60%
Career	65%	45%
Intermediate	55%	35%
Entry	50%	30%
Non-Tech Professional		
Staff	85%	70%
Senior	65%	45%
Career	45%	30%
Intermediate	35%	25%
Entry	30%	15%

Considerations for equity participation:

- > “Ownership culture”
- > Employee performance
- > Critical employee groups
- > Retention concerns
- > Internal constraints
- > External constraints

Equity Transition

Private Company

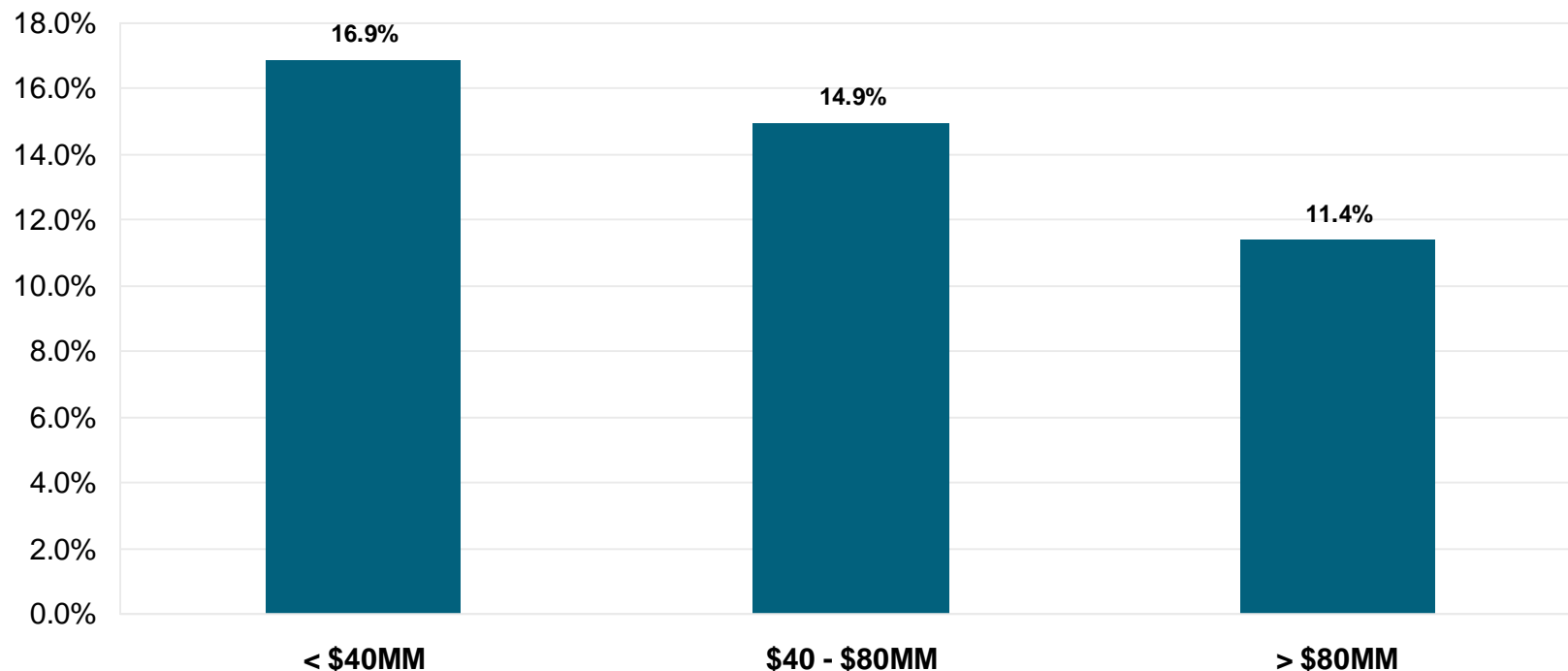
- > Large initial equity grant at time of hire focused on competitive ownership percentage
- > Dilution through additional capital investment
- > Shares become heavily vested
- > Periodic grants are made to assure employee retention and mitigate ownership dilution

Public Company

- > Larger new-hire grant focused on competitive LTI value delivery
- > Annual grant focused on competitive LTI value delivery
- > Annual equity participation becomes restricted and allocation is skewed to performance

Private Company Overhang

Private Issued Overhang vs. Invested Capital

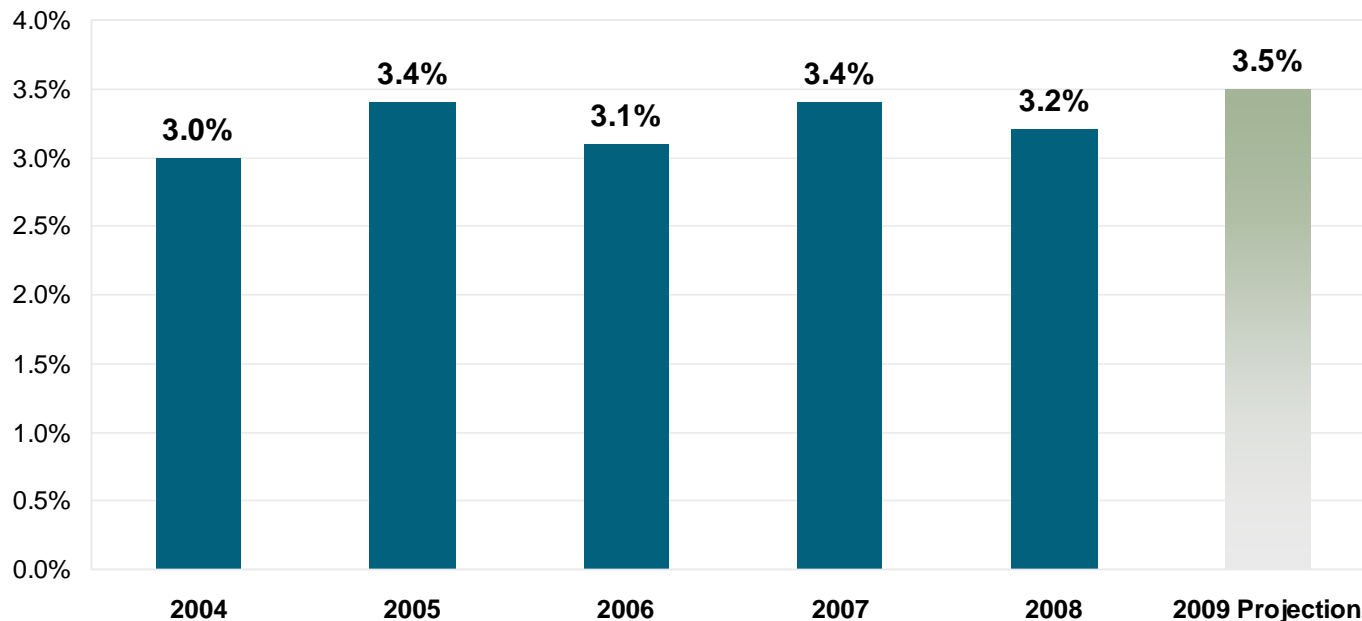


Position	< \$40MM	\$40 – \$80MM	> \$80MM
Vice President	0.76%	0.60%	0.52%
Director	0.32%	0.18%	0.13%
Manager	0.15%	0.09%	0.05%

Public Burn Rate Trends

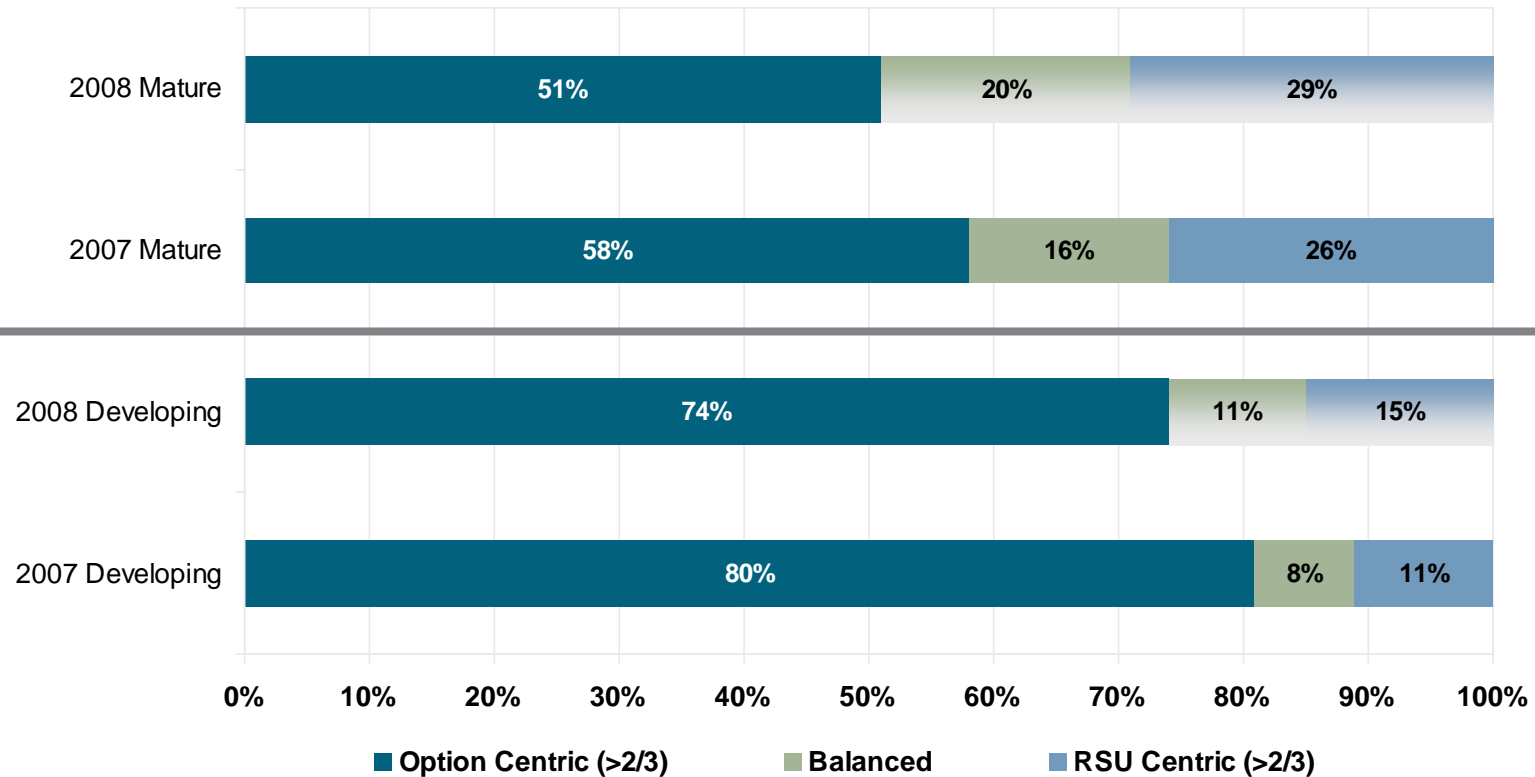
- > Burn rate represents the number of option equivalents granted to employees annually, measured as a percent of company
 - Companies are split on their 2009 equity spend; nearly one-third of companies will increase, stay the same and decrease
 - Two-thirds of companies did not change their equity guidelines

Historical Burn Rate Trends



Public Equity Vehicle Mix Trends

Year-Over-Year Equity Vehicle Mix Change



- > 30% of developing companies have increased emphasis on restricted stock
- > 35% of developing companies have increased their guidelines

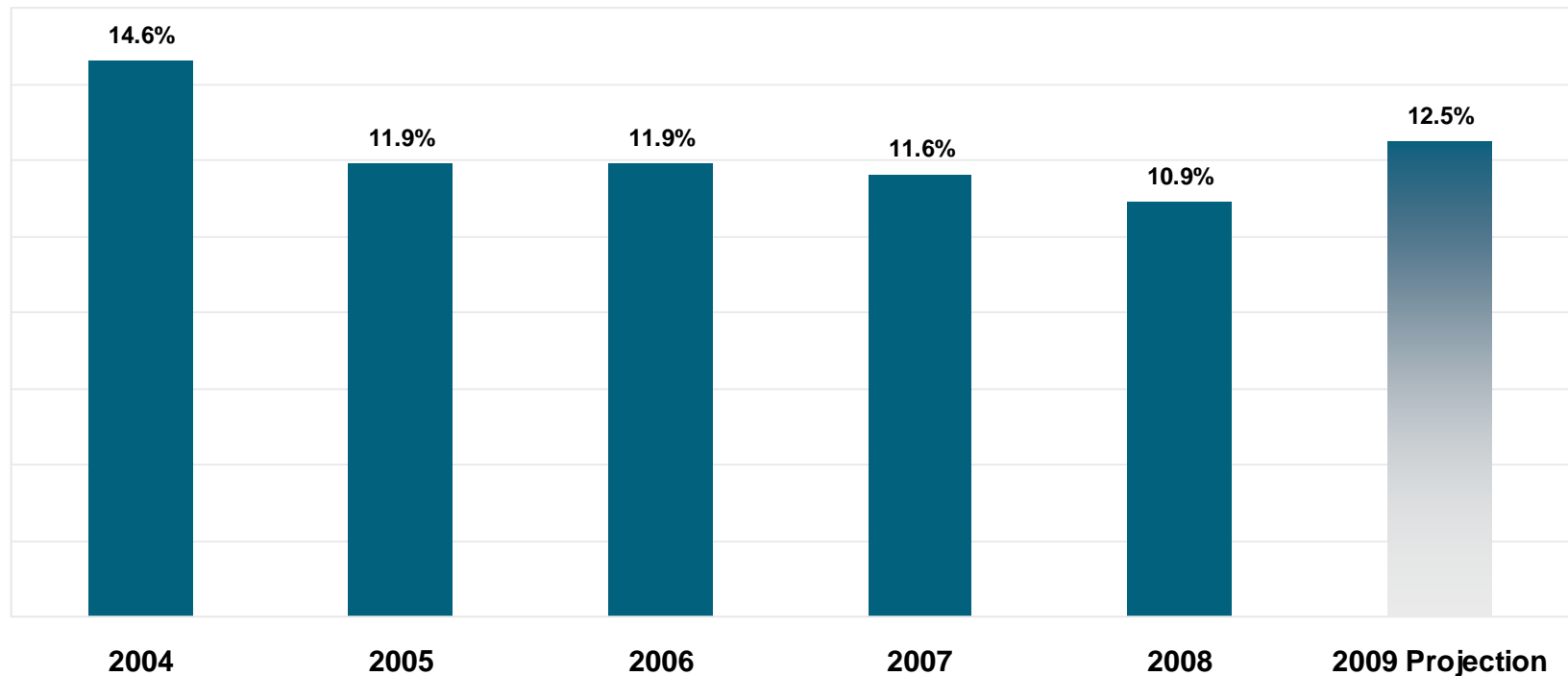
Options vs. Restricted Stock: Understanding the Economics

Event	Stock Options	Restricted Stock Units
Shares awarded	3,000	1,000
Grant price	\$50	\$50
Value created at \$40	\$0	\$40,000
Value created at \$60	\$30,000	\$60,000
Value created at \$70	\$60,000	\$70,000
Value created at \$80	\$90,000	\$80,000
Value created at \$90	\$120,000	\$90,000

- > Assumes a 3:1 conversion ratio of options to restricted stock to deliver a “comparable” equity value across both vehicles

Public Overhang Trends

Historical Issued Overhang Trends



- > Overhang stagnation: underwater options won't be exercised
- > Overhang inflation: higher 2009 burn rates adding to overhang
- > Layoffs and restricted stock vesting will lower overhang, but not enough to offset expected stagnation and inflation



Case Study

Case Study – Company A

> Scenario

- Late-stage private company looking to recalibrate its compensation programs vis-à-vis the public market

> Outcomes

- Shift in compensation philosophy
- Increase base salary levels
- Implement formal bonus plan
- Migrate to annual equity delivery schedule with reduced participation and larger awards based on performance

Case Study – Company B

> Scenario

- Mature public company facing internal cash constraints and external dilution pressure

> Outcomes

- Froze base salary; made defensive adjustments as needed
- Increased variable cash compensation (i.e., bonus)
- Moved from stock options to a mix of restricted stock and performance-based shares
- Delivered above-market annual long-term incentive grant value using fewer shares



Thank You!
Questions?

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